LISTING APPLICATION TO
NEW YORK STOCK EXCHANGE, INC.

B-4496
September 26, 1974

PIZZA HUT, INC.

1,235,658 (MAXIMUM) ADDITIONAL SHARES OF COMMON STOCK IN CONNECTION WITH THE MERGER OF PIZZA CORPORATION OF AMERICA ("PCA") INTO PIZZA HUT, INC. ("PHI"), AS FOLLOWS:

1,150,408 (Maximum) shares to be exchanged for 2,091,650 shares of PCA common stock issued and outstanding; and

55,000 (Maximum) shares to be exchanged for 100,000 shares reserved for issuance under the PCA's Employee Qualified Stock Option Plan dated August 24, 1972; and

13,750 (Maximum) shares to be exchanged for 25,000 shares reserved for issuance under PCA's Stock Option Plan dated April 10, 1972; and

16,500 (Maximum) shares to be exchanged for 30,000 shares reserved for issuance under PCA's Employee Qualified Stock Option Plan dated September 21, 1973;

AND

2,500 ADDITIONAL SHARES OF COMMON STOCK RESERVED FOR ISSUANCE UNDER STOCK OPTION AGREEMENT BETWEEN PHI AND RAYMOND ROSSI, III, DATED MARCH 3, 1974;

AND

100,000 ADDITIONAL SHARES TO BE RESERVED FOR ISSUANCE UNDER PHI'S QUALIFIED STOCK OPTION PLAN DATED AUGUST 5, 1969.

Number of Shares of Common Stock Issued and Outstanding on July 30, 1974:	Number of Shareholders of Record on July 30, 1974:
3,312,838	3,051

DESCRIPTION OF TRANSACTIONS

I. A. Pizza Hut, Inc. ("PHI") entered into an Agreement dated May 23, 1974, with Pizza Corporation of America, a Delaware corporation, ("PCA") pursuant to which but subject to certain conditions specified therein, PCA would be merged with and into PHI. The merger, pursuant to an Agreement to Merge between PCA and PHI, became effective upon the approval by the holders of a majority of the issued and outstanding shares of Common Stock of both PCA and PHI on September 26, 1974. The Agreement to Merge provided that upon the consummation of the merger each of the shares of PCA issued and outstanding at that time would be converted into .55 share of PHI Common Stock. The stockholders of PCA became stockholders of PHI. Certificates representing fractional shares of PHI common stock will not be issued, and, in lieu thereof, PHI shares of common stock underlying all fractional interests will be sold for the account of PCA stockholders

otherwise entitled thereto and the net proceeds will be distributed to such stockholders. The officers and certain of its employees of PHI have investigated and evaluated the business and assets of PCA. The terms of the Merger Agreement were arrived at as a result of arms-length negotiations, and no officers, directors or principal stockholder of PHI or any of its subsidiaries, has any beneficial interest in PCA or in its outstanding stock except for three officers of PHI who own a total of 19,900 shares of PCA common stock, and PHI owns 12,440 shares of PCA common stock. Three directors and officers of PCA own a total of 26,756 shares of PHI common stock, which represents 1% of its issued and outstanding stock.

Stockholders of PCA and PHI who are not affiliates of PCA or PHI will be free to sell the shares of PHI common stock received by them in the merger without any further registration with the Securities and Exchange Commission. Affiliates of PCA and PHI (consisting of the officers, directors and controlling stockholders of PCA and PHI and certain relatives of the same), however, will be considered underwriters with respect to the PHI shares they receive and desire to resell unless such shares, when sold, are sold pursuant to the requirements of Rule 145(c) and the pertinent provisions of Rule 144 of the Rules and Regulations of the Securities and Exchange Commission. Such Rules restrict the number of shares of stock which may be sold by an Affiliate during any six month period to the lesser of (a) one percent of the total shares of PHI common stock outstanding at the time of the proposed sale, or (b) the average weekly reported volume of trading of PHI common stock on all securities exchanges during the four calendar weeks preceding the date of placing an order to sell. All sales by affiliates must be effected through a broker's transaction and must be made without solicitation of orders to buy.

As a part of the Merger Agreement, PHI has entered into an agreement with the officers and directors of PCA (the "Affiliates") which acknowledges the application of Rule 145(c) and Rule 144 to the shares of PHI common stock to be received by Affiliates and which grants to the Affiliates certain rights in reference to their PHI stock. As of May 31, 1974, such Affiliates owned a total of 1,059,831 shares of PCA common stock and will receive a total of 582,907 shares of PHI common stock upon the effectiveness of the merger.

It is the opinion of PHI's management that the merger complements its restaurant operations as the properties operated by PCA are in PHI's major line of business and have been profitable operations. A short history and description of PCA's business is set forth as Exhibit A. Included as Exhibit B hereto are the financial statements of PCA.

The transaction will be treated as a pooling of interests. This treatment has been reviewed by Ernst & Ernst, independent public accountants, and has been approved as being in accordance with generally accepted accounting principles.

B. SHARES APPLIED FOR BUT NOT YET ISSUED.

PCA employee stock options. PHI will assume the outstanding employee stock options of PCA. Each employee of PCA having an option to purchase PCA common stock will have his option continued on the same terms and conditions except that his option will be to purchase .55 share of PHI stock for each share of PCA stock and that a correlative adjustment will be made in the option price. These options will be converted into options to acquire 75,250 shares of PHI common stock.

55,000 shares to be exchanged for 100,000 shares reserved for issuance under PCA's Employee Qualified Stock Option Plan dated August 24, 1972; approved by stockholders of PCA on July 18, 1973;

13,750 shares to be exchanged for 25,000 shares reserved for issuance under PCA's Stock Option Plan dated April 20, 1973; approved by stockholders of PCA on July 18, 1973; and

16,500 shares to be exchanged for 30,000 shares reserved for issuance under PCA's Employee Qualified Stock Option Plan dated September 21, 1973; approved by stockholders of PCA on August 12, 1974.

II. On March 3, 1974, PHI entered into an agreement with Raymond Rossi, III, whereby PHI granted Raymond Rossi, III, options to purchase 2,500 shares of PHI Common Stock, Par Value $.01 for consulting

services rendered PHI at the price of $16.625 per share, which option must be exercised on or before March 3, 1977. Such shares when issued, will be legended and Raymond Rossi, III, will execute investment letters signifying that the shares have been acquired for investment purposes and not with a view to further distribution or resale.

III. PHI has amended its Qualified Stock Option Plan ("Plan") of 1969 to increase the number of shares reserved for such Plan from 200,000 shares to 300,000 shares of Common Stock for issuance upon the exercise of options granted and to be granted under the Plan. The orginial plan was authorized on October 31, 1972 by the New York Stock Exchange, Inc. (Refer to Listing Application B-2302 for a complete text of the plan).

RECENT DEVELOPMENTS

There have been no important recent developments affecting Pizza Hut, Inc. or its business, notice of which has not already been released publicly.

AUTHORITY FOR ISSUANCE

On May 23, 1974, the Board of Directors of PHI approved the proposed merger and reserved a maximum of 1,235,658 shares to be delivered to the shareholders and option holders. The stockholders of PHI and PCA approved the Plan of Merger on September 26, 1974.

On March 3, 1974, the Board of Directors of PHI approved the agreement between PHI and Raymond Rossi, III, and authorized the reservation of 2,500 shares of Common Stock to be issued upon the exercise of the Stock Option Agreement by Raymond Rossi, III.

The Qualified Stock Option Plan of Pizza Hut, Inc. was amended and the issuance of 100,000 additional shares of Common Stock pursuant to the shares of Common Stock pursuant to the plan was authorized by the Board of Directors on June 24, 1974, and approved by a majority of the stockholders at a Stockholders Meeting on August 12, 1974.

OPINION OF COUNSEL

Messrs. Foulston, Siefkin, Powers & Eberhardt, Suite 600 Fourth National Bank Building, Wichita, Kansas, counsel for PHI, have rendered their opinion in support of this application to the effect that:

1. The stockholders of the Company approved the proposed merger with PCA and the issuance of the additional 100,000 shares under the Company's Qualified Stock Option Plan, the Shares have been duly authorized by the Company and when issued and delivered against payment or exchanged therefore in accordance with the terms of issuance will be duly issued, valid, fully paid and nonassessable, and no personal liability or obligation of the Company will attach to the holders of any of the Shares under the existing statutes of the State of Delaware in which the Company is incorporated or any existing statutes of Kansas in which the Company's principal place of business is located;

2. Registration under the Securities Act of 1933, as amended (the "Act"), will be required of the Shares (except for the 2,500 shares reserved for issuance to Raymond Rossi, III, the issuance of which 2,500 shares will be exempt from registration pursuant to Section 4 (2) of the Act as a transaction by an issuer not including any public offering), and the Company will not issue and deliver the Shares to be registered until an appropriate Registration Statement filed with the Securities and Exchange Commission covering such Shares shall have been made effective under the Act.

None of the members of the undersigned law firm rendering this opinion is an officer or director of the Company.

PIZZA HUT, INC.

By: ALBERT J. KIRK
Assistant Secretary

UNDERTAKING

PHI hereby undertakes that prior to issuance of the shares relating to PCA's Employee Qualified Stock Option Plan dated August 24, 1972, PCA's Stock Option Plan dated April 20, 1973, PCA's Employee Qualified Stock Option Plan dated September 21, 1973, and the 100,000 additional shares under PHI's Qualified Stock Option Plan, PHI's Registration Statement covering such shares will be effective under the Securities Act of 1933.

PIZZA HUT, INC.

By: ALBERT J. KIRK
Assistant Secretary

The New York Stock Exchange, Inc. hereby authorizes the listing of:

1,235,658	(Maximum) additional shares of Common Stock, \$.01 par value, of Pizza Hut, Inc. in connection with the merger of Pizza Corporation of America; and
2,500	additional shares of Common Stock upon official notice of issuance pursuant to the Stock Option Agreement between Pizza Hut, Inc. and Raymond Rossi; and
100,000	additional shares of Common Stock upon official notice of issuance pursuant to the Company's Qualified Stock Option Plan;

as hereinabove set forth, making a total of 4,973,832 shares of Common Stock authorized for listing.

EXHIBITS

The exhibits referred to below constitute an essential part of the application. The statements contained therein are made on the authority of the applicant corporation in the same manner as those in the body of the application.

EXHIBIT A

HISTORY AND BUSINESS

PIZZA CORPORATION OF AMERICA

Pizza Corporation of America was incorporated in the State of Delaware on March 20, 1970. Its principal executive offices are located in Wichita, Kansas. As of July 1, 1974, it owned and operated a chain of 202 Pizza Hut restaurants in 21 states in the United States and two in London, England, as well as 1 lounge in Albuquerque, New Mexico, and 1 Taco Kid restaurant in Penfield, New York. The corporation has approximately 1,870 employees.

EXHIBIT B

FINANCIAL STATEMENTS

ACCOUNTANTS' REPORT

The Board of Directors
Pizza Corporation of America:

We have examined the balance sheets of Pizza Corporation of America and of Pizza Corporation of America and Subsidiaries as of March 31, 1974, the related statements of earnings of Pizza Corporation of America for the three years then ended, and of Pizza Corporation of America and Subsidiaries for the five years then ended, and the related statements of stockholders' equity and changes in financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion such financial statements present fairly the financial position of Pizza Corporation of America at March 31, 1974, the results of its operations, the changes in stockholders' equity and the changes in financial position for the three years then ended, and the financial position of Pizza Corporation of America and subsidiaries at March 31, 1974, the results of their operations for the five years then ended and the changes in stockholders' equity and the changes in financial position for the three years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Wichita, Kansas
May 17, 1974 except
for note 8 dated May 23, 1974

PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

March 31, 1974

ASSETS

Current assets:	
Cash	$ 1,417,594
Certificates of deposit	100,000
Properties under construction	1,175,099
Receivables:	
Trade	87,980
Employees and stockholders	12,138
Accrued Interest	2,333
Total receivables	102,451
Inventories	510,868
Prepaid expenses	110,874
Total current assets	3,416,886
Property and equipment, at cost (note 4):	
Land	778,795
Buildings	1,051,608
Leasehold improvements	2,629,691
Equipment	4,525,891
	8,985,985
Less accumulated depreciation and amortization	1,449,869
Net property and equipment	7,536,116
Franchise fees and territorial rights (notes 2 and 3)	2,736,318
Liquor licenses (notes 3 and 4)	638,998
Other assets and deferred charges:	
Organization costs	16,541
Lease costs	140,644
Interest	11,366
Deposits	123,754
Noncurrent receivables	83,700
Total other assets and deferred charges	376,005
	$14,704,323

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

March 31, 1974

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current portion of long-term debt (note 4)	$ 290,079
Trade accounts payable	972,960
Accrued liabilities:	
Salaries and wages	360,022
Taxes, other than income	249,901
Interest	105,183
Accrued income taxes	966,367
Total current liabilities	2,944,512
Long-term debt, less current portion (note 4)	3,673,386
Deferred income taxes	84,818
Commitments and subsequent events (notes 7 and 8)	
Stockholders' equity (notes 4, 5, and 6):	
Common stock	20,874
Additional paid-in capital	3,478,167
Retained earnings	4,502,566
Total stockholders' equity	8,001,607
	$14,704,323

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA

BALANCE SHEET

March 31, 1974

ASSETS

Current assets:	
Cash	$ 595,128
Certificates of deposit	100,000
Properties under construction	1,175,099
Receivables:	
Trade	47,441
Employees and stockholders	5,218
Accrued interest	2,333
Total receivables	54,992
Advances to subsidiaries	3,071,473
Prepaid expenses	26,337
Total current assets	5,023,029
Investments (notes 2 and 3):	
Investments in subsidiaries on the equity basis	5,996,627
Franchise fees	22,000
Total investments	6,018,627
Property and equipment, at cost (note 4):	
Equipment	71,813
Leasehold improvements	6,354
	78,167
Less accumulated depreciation and amortization	8,090
Net property and equipment	70,077
Other assets and deferred charges	31,646
	$11,143,379

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA

BALANCE SHEET

March 31, 1974

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current portion of long-term debt (note 4)	$ 57,667
Trade accounts payable	50,166
Accrued liabilities:	
Salaries and wages	129,442
Taxes, other than income	9,287
Interest	62,800
Total current liabilities	309,362
Long-term debt, less current portion (note 4)	2,832,410
Commitments and subsequent events (notes 7 and 8)	
Stockholders' equity (notes 4, 5 and 6):	
Common stock	20,874
Additional paid-in capital	3,478,167
Retained earnings	4,502,566
Total stockholders' equity	8,001,607
	$11,143,379

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA

STATEMENT OF EARNINGS

Three Years Ended March 31, 1974

	Year Ended March 31,		
	1972	1973	1974
Revenue:			
Management fees charged to subsidiaries	$393,484	$ 751,656	$1,426,699
Interest and miscellaneous revenue	39,742	149,165	300,489
Total revenue	433,226	900,821	1,727,188
Operating expenses:			
General and administrative expense	355,369	718,103	1,466,753
Depreciation and amortization	1,614	5,050	26,783
Interest expense	51,638	83,895	248,626
Total operating expenses	408,621	807,048	1,742,162
Earnings (loss) before provision for income taxes and equity in earnings of subsidiaries	24,605	93,773	(14,974)
Provision for income taxes:			
Federal	6,500	41,319	—
State	1,500	6,200	—
Tax benefit from loss carryover	(7,000)	—	(6,700)
Total provision (credit) for income taxes	1,000	47,519	(6,700)
Earnings (loss) before equity in earnings of subsidiaries	23,605	46,254	(8,274)
Equity in earnings of subsidiaries	738,229	1,310,696	2,180,954
Less amortization of excess of cost over equity in net book value	4,545	11,128	22,193
Net equity in earnings of subsidiaries	733,684	1,299,568	2,158,761
Net earnings	$757,289	$1,345,822	$2,150,487

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA

STATEMENT OF CHANGES IN FINANCIAL POSITION

Three Years Ended March 31, 1974

	Year Ended March 31,		
	1972	1973	1974
Funds provided from:			
Net earnings	$757,289	$1,345,822	$2,150,487
Add (deduct) items included in earnings not required or providing working capital:			
Equity in earnings of subsidiaries	(738,229)	(1,310,696)	(2,180,954)
Dividends paid by pooled companies	14,517	46,986	—
Depreciation and amortization	6,159	16,178	48,976
Funds provided from operations	39,736	98,290	18,509
Proceeds from disposition of assets	1,052	—	—
Proceeds from long-term debt	500,000	1,500,000	1,750,000
Long-term debt issued in connection with acquisition of franchise units (note 2)	22,403	—	175,000
Proceeds from common stock issued:			
Sales by pooled franchise units	5,500	3,600	—
Sales by the Company (note 5c)	30,500	3,156,991	—
Exercise of warrants	800	—	—
Conversion of preferred stock (note 5a)	30,000	—	—
Acquisition of franchise units	135,800	—	—
Stock options exercised (note 6)	—	—	14,813
	$765,791	$4,758,881	$1,958,322
Funds used for:			
Additions to investments in subsidiaries	$165,193	$524,501	$235,000
Additions to franchise fees	—	18,000	4,000
Additions to property and equipment	17,992	14,818	68,575
Additions to registration costs	38,023	—	—
Increase in other assets	1,368	694	29,738
Payments made or due within one year on long-term debt	142,637	609,466	708,615
Conversion of preferred stock to common stock	30,000	—	—
Dividends paid on preferred stock	900	—	—
Dividends paid by pooled companies	14,517	46,986	—
Increase in working capital (note 10)	355,161	3,544,416	912,394
	$765,791	$4,758,881	$1,958,322

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Three Years Ended March 31, 1974

	Year Ended March 31,		
	1972	1973	1974
Funds provided from:			
Net earnings	$ 757,289	$1,345,822	$2,150,487
Add items included in earnings not requiring or providing working capital:			
Depreciation and amortization	279,689	470,300	802,350
Provision for deferred taxes on income	10,000	17,000	38,318
Funds provided from operations	1,046,978	1,833,122	2,991,155
Proceeds from disposition of assets	236,317	24,981	516,545
Proceeds from long-term debt (note 4)	1,048,044	1,550,572	2,352,326
Long-term debt issued in connection with acquisition of franchise units (note 2)	72,403	—	175,000
Proceeds from common stock issued:			
Sales by pooled franchise units	5,500	3,600	—
Sales by parent company (note 5c)	30,500	3,156,991	—
Exercise of warrants	800	—	—
Conversion of preferred stock	30,000	—	—
Acquisition of franchise units	135,800	—	—
Stock options exercised (note 6)	—	—	14,813
Other	29,396	3,670	27,858
	$2,635,738	$6,572,936	$6,077,697
Funds used for:			
Acquisition of franchise units purchased (note 2):			
Working capital (deficit)	$ (86,153)	$ (116,218)	$ (59,613)
Property and equipment	197,313	432,351	282,652
Franchise fees, territorial rights and liquor licenses	280,996	954,749	702,242
Other assets	13,279	3,208	13,281
Long-term debt assumed	(65,181)	(122,755)	(100,623)
	340,254	1,151,335	837,939
Add working capital deficit	86,153	116,218	59,613
	426,407	1,267,553	897,552
Additions to property and equipment	1,174,197	2,665,288	3,853,945
Additions to franchise fees	106,000	197,000	132,000
Additions to liquor licenses	26,000	183,500	135,700
Increase in other assets	62,670	3,259	202,257
Payments made or due within one year on long-term debt	686,167	931,286	996,587
Conversion of preferred stock to common stock	30,000	—	—
Dividends paid on preferred stock	900	—	—
Dividends paid by pooled companies	14,517	46,986	—
Increase (decrease) in working capital (note 10)	108,880	1,278,064	(140,344)
	$2,635,738	$6,572,936	$6,077,697

See accompanying notes to financial statements.

PIZZA CORPORATION OF AMERICA

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PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

NOTE TO FINANCIAL STATEMENTS

March 31, 1974

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Principles of consolidation:*

The consolidated financial statements include the accounts of Pizza Corporation of America and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

(b) *Inventories:*

Inventories, consisting of food, paper products and other supplies, are stated at the lower of cost (first-in, first-out) or market.

(c) *Property and equipment, depreciation and amortization:*

Provisions for depreciation of buildings and equipment have been computed on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements has been provided on a straight-line basis over the initial term of the leases plus renewal options or estimated useful life, whichever is less. The number of years used in the computation of such provisions is as follows: buildings—24 to 30 years; equipment—3 to 10 years; and leasehold improvements—8 to 30 years.

Maintenance, repairs and minor renewals are charged to operations during the year in which incurred. Major renewals and betterments are charged to the property and equipment accounts. Upon sale, retirement or other disposition of capitalized assets, the cost thereof and the accumulated depreciation and amortization are removed from the respective accounts and any gain or loss is credited or charged respectively, to other income or deductions.

Franchise fees, territorial rights and liquor licenses acquired prior to October 31, 1970 are not being amortized because, in the opinion of management, there has been no decrease in value. Amounts acquired after October 31, 1970 are being amortized on a straight-line basis over a forty-year period in accordance with an Opinion of the Accounting Principles Board applicable to intangible assets.

Organization costs are being amortized on a straight-line basis over a period of five years. Lease costs are being amortized on a straight-line basis over the terms of the leases plus renewal options.

(d) *Income taxes:*

Investment tax credits are applied under the flow-through method of accounting.

The Company's policy is to reinvest net earnings of its subsidiaries, and accordingly, no provision has been made for income taxes which would be payable if undistributed earnings of the subsidiaries were paid as dividends to the parent company.

(e) *Pre-opening costs:*

The Company follows the practice of charging all costs incurred in connection with the opening of new units to expense when the units are opened.

PIZZA CORPORATION OF AMERICA

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PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(f) *Properties under construction:*

Properties under construction consist of land and construction costs for units under development for sale within one year. These units are to be sold at, or less than, actual cost under lease-back agreements for use in operations. Any aggregate loss resulting from the sale of these properties will be deferred and amortized over the initial term of the leases as an adjustment to rental expense.

(2) ACQUISITIONS

During the year ended March 31, 1973, the Company acquired seven units in exchange for 115,000 shares of the Company's common stock and on April 1, 1973 acquired five units in exchange for 85,000 shares of the Company's common stock. These acquisitions were accounted for as poolings of interests. Accordingly, the 1974 financial statements included the accounts of the pooled units for the entire period and the financial statements of all previous periods have been restated to include the pooled units. Total revenues and net earnings of the seven units pooled during the year ended March 31, 1973, for the period April 1, 1972 to the dates of acquisition, were $626,930 and $85,177, respectively.

The Company also purchased eleven units during the year ended March 31, 1973 for cash and notes aggregating $1,151,335 and ten units during the year ended March 31, 1974 for cash and the exchange of two units aggregating $837,939. The total consideration for the twenty-one units accounted for as purchases has been allocated to the identifiable assets acquired less liabilities assumed, based on the fair value of such assets at the dates of acquisition, as determined by the management of the Company. The excess of the total consideration paid over the amounts so allocated has been recorded as franchise fees and territorial rights in the amount of $877,648 and $575,142 for the years ended March 31, 1973 and 1974, respectively. The results of operations of the purchased units have been included in the accompanying financial statements since dates of acquisition.

(3) FRANCHISE FEES, TERRITORIAL RIGHTS AND LIQUOR LICENSES

Franchise fees and territorial rights represent (1) the initial franchise fee paid for units constructed and (2) the excess of total consideration paid for purchased units over the amounts allocated to identifiable assets net of liabilities (see note 2). The Company's franchise agreements with the franchisor provide for an initial franchise term of generally 15 years plus automatic year-to-year renewal and thus, unless the Company materially breaches the franchise agreements, are perpetual in nature. The liquor licenses represent the cost of licenses purchased which have perpetual lives and are transferable with state approval.

PIZZA CORPORATION OF AMERICA

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PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Long-Term Debt

A summary of long-term debt at March 31, 1974 is as follows:

Consolidated:	
Bank notes payable in eight quarterly installments of $57,500 commencing April 1, 1975 and sixteen quarterly installments of $115,000 commencing April 1, 1977. Interest at ¾ of 1% over prime is payable quarterly and commenced April 1, 1973	$2,300,000
Mortgage notes payable in monthly installments of $9,501, including interest at rates of 7% to 10%, maturing at various dates through November, 1991. Land, buildings and leasehold improvements with a net depreciated cost of approximately $1,252,680 at March 31, 1974 have been mortgaged as collateral	649,176
Other secured notes payable in monthly installments of $9,029, including interest at rates of 4% to 11.08%, maturing at various dates through March, 1978. Equipment and liquor licenses with a net depreciated cost of approximately $498,900 at March 31, 1974 have been pledged as collateral	164,333
Unsecured notes payable in annual and quarterly installments, plus interest at rates of 7% to 9%, maturing at various dates through August, 1976	593,833
Unsecured notes payable in monthly installments of $8,643, including interest at rates of 6¼% to 11½%, maturing at various dates through September, 1977	256,123
	3,963,465
Less amounts due within one year	290,079
	$3,673,386

Parent:	
Bank notes payable in eight quarterly installments of $57,500 commencing April 1, 1975 and sixteen quarterly installments of $115,000 commencing April 1, 1977. Interest at ¾ of 1% over prime is payable quarterly and commenced April 1, 1973	$2,300,000
Other unsecured 6¼% to 9% bank notes, payable in monthly and annual installments, maturing at various dates through March, 1976	348,244
Unsecured notes payable in annual installments, plus interest at rates of 7% to 9%, maturing at various dates through April, 1976	241,833
	2,890,077
Less amounts due within one year	57,667
	$2,832,410

The Company has loan commitments from two banks aggregating $4,000,000 of which $2,300,000 had been drawn down at year-end. Compensating balances are expected to be maintained under the loan agreement in an amount which will cause the effective interest rate on the outstanding loan balance to increase

PIZZA CORPORATION OF AMERICA

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PIZZA CORPORATION OF AMERICA AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS (Continued)

by ¾ of 1%. The compensating balances were not legally restricted against withdrawal at March 31, 1974. The loan agreement contains restrictions relating to the purchase of the Company's stock, additional indebtedness, investments, payment of cash dividends and the maintenance of certain ratios relating to current assets, net worth and net earnings. Approximately $809,100 of retained earnings was not restricted as to the payment of cash dividends at March 31, 1974.

Annual maturities of long-term debt for the five years subsequent to March 31, 1974 are as follows:

	Consolidated	Parent Company
1975	$ 290,079	$ 57,667
1976	890,394	687,410
1977	445,825	305,000
1978	571,834	460,000
1979	513,438	460,000
Thereafter	1,251,895	920,000
	$3,963,465	$2,890,077

(5) Capital Stock and Additional Paid-in Capital

(a) *Preferred stock:*

In November 1970, the Company sold 5,000 shares of 6% cumulative convertible Preferred Stock at $6 per share to Central Investment Corporation of Denver. In August 1971, the Preferred Stock issued was converted into 125,000 shares (187,500 shares giving retroactive effect to the stock splitup) of Common Stock. As of March 31, 1972 the authorized Preferred Stock of 5,000 shares, none of which was outstanding, was cancelled.

(b) *Common stock:*

The Company is authorized to issue 5,000,000 shares of $0.01 par value Common Stock. Shares issued at March 31, 1974 total 2,087,400 (of which 800 are held in treasury at no cost).

(c) *Common stock sold:*

On July 6, 1972 the Company sold in a public offering 300,000 shares of Common Stock for an aggregate price, net of registration costs, of $3,118,968. Additional paid-in capital has been increased by the excess of net proceeds over the par value of the stock sold. During the year ended March 31, 1973 former employees donated 800 shares of the Company's Common Stock to the Company which is being held in treasury at no cost.

(d) *Common stock split-up effected in the form of a dividend:*

In August 1971, the Board of Directors adopted a resolution declaring a stock dividend of ½ share for each share of Common Stock then outstanding.

(e) *Common stock warrants:*

In October 1970 the Company issued to certain individuals, from whom they had purchased units, warrants having the right to purchase 12,000 shares (18,000 shares giving retroactive effect to the stock split-up) of its Common Stock for an aggregate cash price of $1,200. The warrants were subsequently exercised during the two years ended March 31, 1972 and there are none presently outstanding.

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NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Common Stock Options

The Directors of the Company have approved the following stock option plans for certain Officers and key employees: (a) August 24, 1972, 100,000 common shares under a qualified stock option plan, exercisable 50% annually on a cumulative basis beginning one year from date of grant; (b) April 20, 1973, 25,000 common shares under a non-qualified stock option plan, exercisable 50% annually on a cumulative basis beginning December 21, 1973; (c) September 21, 1973, 30,000 common shares under a qualified stock option plan, exercisable 25% annually on a cumulative basis, beginning one year from date of grant. Under all plans, the option price shall be not less than 100% of the fair market value at the date of grant, and the options shall be exercised within five years from date of grant.

Stock options are summarized for the two years ended March 31, 1974, as follows:

		Option Price		Market Value	
	Shares	Per Share	Total	Per Share	Total
1973				At dates granted or cancelled	
Approved	100,000				
Granted	(63,300)	$9.875-16.75	$ 766,713	$9.875-16.75	$ 766,713
Available for grant	36,700				
1974					
Approved	55,000				
Granted	(79,650)	$8.00-10.00	$ 722,925	$8.00-10.00	$ 722,925
Cancelled	34,125	$8.00-16.75	$ 469,832	$8.00-16.75	$ 291,670
Available for grant	46,175				
Options exercised				At dates exercised	
1973	None	$ —	$ —	$ —	$ —
1974	1,500	$9.875	$ 14,813	$15.25-16.00	$ 23,250
Options becoming exercisable				At dates first exercisable	
1973	None	$ —	$ —	$ —	$ —
1974	26,800	$8.00-9.875	$ 245,056	$7.875-13.75	$ 307,106
Options outstanding				At dates granted	
1974	107,325	$8.00-10.00	$1,004,993	$8.00-10.00	$1,004,993

(7) Commitments

The Company and its subsidiaries are lessees under long-term real property leases expiring at various dates, including renewal options on certain units, over the next 38 years. Certain of the leases provide for additional annual rent based on the gross sales of the operating units.

For disclosure purposes, the Company has made a distinction between "financing" and "operating" lease arrangements. A "financing" lease is one which, during the non-cancellable lease period, either (i) covers 75% or more of the economic life of the property or (ii) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investment.

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NOTES TO FINANCIAL STATEMENTS (Continued)

Total rental expense at March 31, is summarized as follows:

	1972	1973	1974
Financing leases:			
Minimum rentals	$674,000	$1,074,000	$1,562,000
Contingent rentals	—	2,370	32,978
	674,000	1,076,370	1,594,978
Operating leases (including cancellable leases)	122,380	114,129	143,049
Total rent expense	$796,380	$1,190,499	$1,738,027

A summary of minimum rentals under all noncancellable leases is approximately as follows:

Year Ended March 31,	Type of Leases: Operating	Type of Leases: Financing	Total Commitment
1975	$70,000	$1,855,000	$1,925,000
1976	76,000	1,851,000	1,927,000
1977	73,000	1,855,000	1,928,000
1978	65,000	1,859,000	1,924,000
1979	38,000	1,859,000	1,897,000
1980 through 1984	1,400	9,039,000	9,040,400
1985 through 1989	1,400	7,316,000	7,317,400
1990 through 1994	1,400	5,575,000	5,576,400
1995 and beyond	—	4,050,000	4,050,000

Substantially all leases included above provide that the Company pay, in addition to the minimum rentals, all real estate taxes, maintenance and insurance applicable to the leases. The present value of the Company's minimum lease commitments relating to noncapitalized "financing" leases at March 31, 1972, 1973 and 1974 was $7,241,000, $10,682,000 and $16,071,000, respectively. Such amounts were computed using interest rates ranging from 7% to 10% (weighted average of 9.08%).

If all noncapitalized "financing" leases were capitalized, related lease rights were amortized on a straight-line basis, and interest cost accrued on the basis of the outstanding present value of lease commitments, net earnings for 1972, 1973 and 1974 would have been reduced by $86,000, $137,000 and $198,000, respectively. Amortization included in the foregoing computation of the impact upon net earnings was $343,000, $518,000 and $735,000 in 1972, 1973 and 1974, respectively; interest cost included therein was $503,000, $830,000 and $1,223,000 in 1972, 1973 and 1974, respectively.

Under the terms of the franchise agreements with the Franchisor, the Company and its subsidiaries are obligated to (1) pay an amount per month equal to 2.75% (subject to renegotiation annually, and adjusted to 2.65% effective August 1, 1973 and 2.62% effective January 1, 1974), of net sales from all units, exclusive of liquor sales in a liquor lounge if the liquor sales exceed 50% of the gross sales; (2) spend not less than 3% of its annual sales for local advertising (local advertising expenses are defined as but not necessarily limited to expenditures for local media and special promotion events); and (3) to become a member of the International Pizza Hut Franchise Holders Association within 30 days after commencing business and accordingly spend $150 per month for national advertising for each operating Pizza Hut.

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NOTES TO FINANCIAL STATEMENTS (Continued)

(8) Subsequent Events

On May 23, 1974, the Company entered into an Agreement to Merge with Pizza Hut, Inc. on the basis of the exchange of the Company's common stock for common stock of Pizza Hut, Inc. (an exchange ratio of .55 share of Pizza Hut, Inc. stock for each share of the Company's stock). The proposed merger is subject to approval by the stockholders and holders of major long-term debt agreements of both Companies.

(9) Supplementary Statements of Earnings Information

	Year Ended March 31,		
	1972	1973	1974
Consolidated:			
Maintenance and repairs	$ 80,100	$ 124,299	$ 157,890
Depreciation and amortization:			
Property and equipment	$258,032	$ 427,386	$ 729,375
Franchise fees, territorial rights and liquor licenses	10,504	30,304	60,888
Deferred charges	11,153	12,610	12,087
Total depreciation and amortization	$279,689	$ 470,300	$ 802,350
Taxes other than income:			
Payroll	$148,675	$ 234,466	$ 411,354
Property and other	142,172	231,730	416,363
Total taxes other than income	$290,847	$ 466,196	$ 827,717
Rents	$796,380	$1,190,499	$1,738,027
Royalties	$193,485	$ 342,544	$ 630,731
Advertising	$229,038	$ 334,965	$ 630,079
Parent Company:			
Maintenance and repairs	$ 1,572	$ 2,100	$ 1,013
Depreciation and amortization:			
Property and equipment	$ 1,356	$ 4,832	$ 26,565
Territorial rights	4,545	11,128	22,193
Deferred charges	258	218	218
Total depreciation and amortization	$ 6,159	$ 16,178	$ 48,976
Taxes other than income:			
Payroll	$ 11,146	$ 17,648	28,043
Property and other	1,922	420	11,299
Total taxes other than income	$ 13,068	$ 18,068	$ 39,342
Rents	$ 7,629	$ 19,889	$ 50,537
Advertising	$ 24,008	$ 8,819	$ 4,564

There were no research and development costs.

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NOTES TO FINANCIAL STATEMENTS (Concluded)

(10) CHANGES IN THE COMPONENTS OF WORKING CAPITAL

	Year Ended March 31,		
	1972	1973	1974
Consolidated:			
Increase (decrease) in current assets:			
Cash and certificates of deposit	$418,762	$2,184,777	$(1,168,118)
Properties under construction	—	—	1,175,099
Receivables	61,802	110,960	(146,887)
Inventories	69,474	91,590	223,134
Prepaid expenses	37,660	(31,683)	17,846
	587,698	2,355,644	101,074
Increase (decrease) in current liabilities:			
Notes payable	(13,553)	596,080	(905,500)
Current portion of long-term debt	132,270	(230,456)	80,583
Accounts payable	22,054	242,872	410,873
Accrued liabilities	102,347	119,288	347,752
Accrued income taxes	235,700	349,796	307,710
	478,818	1,077,580	241,418
Increase (decrease) in working capital	$108,880	$1,278,064	$ (140,344)
Current Company:			
Increase (decrease) in current assets:			
Cash and certificates of deposit	$132,115	$2,051,819	$(1,489,096)
Properties under construction	—	—	1,175,099
Receivables	39,768	101,729	(86,670)
Advances to subsidiaries	322,156	1,811,429	890,322
Prepaid expenses	3,762	(1,481)	20,356
	497,801	3,963,496	510,011
Increase (decrease) in current liabilities:			
Notes payable	78,496	387,687	(500,000)
Current portion of long-term debt	44,779	(71,321)	(3,551)
Accounts payable	4,833	42,925	(3,397)
Accrued liabilities	14,532	10,703	153,651
Accrued income taxes	—	49,086	(49,086)
	142,640	419,080	(402,383)
Increase in working capital	$355,161	$3,544,416	$ 912,394